



**REED CITY, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2008**

# CITY OF REED CITY

## TABLE OF CONTENTS

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	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1-2
<b>Management's Discussion and Analysis</b>	3-10
<b>Basic Financial Statements:</b>	
Governmental-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Fire Equipment Replacement	19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22-23
Statement of Fiduciary Assets and Liabilities – Agency Funds	24
Combining Statement of Net Assets – Component Units	25
Combining Statement of Activities – Component Units	26
Notes to Financial Statements	27-42
<b>Combining and Individual Fund Statements and Schedules:</b>	
Nonmajor Governmental Funds:	
Combining Balance Sheets	43-44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	45-46
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
Major Streets Fund	47
Local Streets Fund	48
Law Enforcement Training Fund	49
Library Fund	50
Maplewood Special Assessment Fund	51
Emergency Contingency Fund	52
Park Commission Fund	53
Police Reserve Officer Fund	54

# CITY OF REED CITY

## TABLE OF CONTENTS (CONTINUED)

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	<u>PAGE</u>
Internal Service Funds:	
Combining Statement of Net Assets	55
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	56
Combining Statement of Cash Flows – Internal Service Funds	57
Fiduciary Funds:	
Combining Balance Sheet	58
Component Units:	
Downtown Development Authority:	
Balance Sheet/Statement of Net Assets	59
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	60
Statement of Revenues, Expenditures and Changes in Fund Balance/Net Assets	61
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	62
Brownfield Redevelopment Authority	
Balance Sheet/Statement of Net Assets	63
Statement of Revenues, Expenditures and Changes in Fund Balance/Net Assets	64



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

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## **INDEPENDENT AUDITORS' REPORT**

December 2, 2008

Honorable Mayor and Members of  
the City Council  
City of Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Reed City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information for the City of Reed City, Michigan as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and fire equipment replacement special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 2, 2008, on our consideration of the City of Reed City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the City of Reed City, we offer readers of the City of Reed City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The assets of the City of Reed City exceeded its liabilities at the close of the fiscal year by \$12,332,806. Of this amount \$1,372,669 may be used to meet the government's ongoing obligations to citizens and creditors (unrestricted net assets).
- The City's total net assets increased by \$520,963. The increase is mostly attributable to construction of the Depot and the purchase of a new fire truck made possible thru a grant obtained thru the Department of Homeland Security.
- As of the close of the fiscal year the City of Reed City's governmental funds reported combined ending fund balances of \$1,155,980 an increase of \$63,203 in comparison with the prior year. Approximately 90% of the total fund balance, \$1,059,394 is available for spending at the government's discretion. (These amounts include the undesignated fund balance for the General, Special Revenue, Capital Projects, and Permanent Funds).
- At the end of the fiscal year unreserved fund balance for the general fund was \$370,680 or 26 percent of total general fund expenditures.
- The City's total debt increased by \$79,506 from the previous fiscal year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Reed City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Reed City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements can be found on pages 11-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Reed City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following two funds: General and Fire Equipment Replacement.

Data is combined into a single aggregated presentation for the other fourteen governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.



The City adopts an annual appropriated budget for its general, special revenue funds, and other funds as necessary. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-19 of this report.

***Proprietary funds.*** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Sewer and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses the internal service fund to account for its fleet of vehicles and accounting for compensated absences. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sewer and Water operations, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 20-23 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on page 24 of this report.

The component unit fund financial statements can be found on pages 25 and 26 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-42 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This includes this management discussion and analysis as well as schedules of funding progress and employer contributions related to the City's pension plan which can be found in Note 8 on page 40 of this report.

Combining and individual fund statements and schedules can be found on pages 43-54 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Reed City, assets exceeded liabilities by \$12,332,806 at the close of the most recent fiscal year.

A little less than 11% of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion (80.5%) of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### City of Reed City Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$1,506,282	\$1,368,878	\$1,368,386	\$ 1,229,562	\$ 2,874,668	\$ 2,598,440
Capital assets	3,695,998	3,231,933	9,561,984	9,868,363	13,257,982	13,100,296
Total assets	5,202,280	4,600,811	10,930,370	11,097,925	16,132,650	15,698,736
Long-term liabilities						
Outstanding	929,586	921,276	2,574,553	2,344,329	3,504,139	3,265,605
Other liabilities	144,020	135,744	151,685	485,544	295,705	621,288
Total liabilities	1,073,606	1,057,020	2,726,238	2,829,873	3,799,844	3,886,893
Net assets:						
Invested in capital assets, net of related debt	2,858,998	2,347,933	7,046,103	7,309,846	9,905,101	9,657,779
Restricted	534,890	539,511	520,146	470,867	1,055,036	1,010,378
Unrestricted	734,786	656,347	637,883	487,339	1,372,669	1,143,686
Total net assets	\$4,128,674	\$3,543,791	\$8,204,132	\$ 8,268,052	\$12,332,806	\$11,811,843

Net assets of the City increased by \$520,963 with governmental activities increasing and business-type activities decreasing. The business-type activities decrease in net assets of \$63,920 was primarily the result of reduced revenue in the Water/Sewer Fund. The governmental activities increase in net assets of \$584,883 is primarily due to an increase in capital assets of the Depot Project and Fire Equipment, funded thru grants from both the Department of Transportation and the Department of Homeland Security, respectively.

#### City of Reed City Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program Revenue						
Charges for services	\$ 237,568	\$ 199,206	\$1,588,342	\$1,720,144	\$1,825,910	\$1,919,350
Operating grants and contributions	391,803	192,716	-	46,182	391,803	238,898
Capital grant and Contributions	228,567	40,000	24,573	-	253,140	40,000
	857,938	431,922	1,612,915	1,766,326	2,470,853	2,198,248
General revenue						
Property taxes	667,233	650,287	-	-	667,233	650,287
Other governmental Sources	515,657	500,021	-	-	515,657	500,021
Other	239,407	209,516	48,503	32,917	287,910	242,433
Total revenue	2,280,235	1,791,746	1,661,418	1,799,243	3,941,653	3,590,989

### City of Reed City Changes in Net Assets (Continued)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Expenses						
General Government	\$ 375,141	\$ 457,541	\$ -	\$ -	\$ 375,141	\$ 457,541
Public Safety	561,631	554,172	-	-	561,631	554,172
Highways and Streets	278,003	235,015	-	-	278,003	235,015
Public works	189,568	157,130	-	-	189,568	157,130
Culture and recreation	253,734	239,158	-	-	253,734	239,158
Interest	37,275	34,288	-	-	37,275	34,288
Water & Sewer	-	-	1,725,338	1,736,324	1,725,338	1,736,324
Total expenses	1,695,352	1,677,304	1,725,338	1,736,324	3,420,690	3,413,628
Change in net assets	584,883	114,442	(63,920)	62,919	520,963	177,361
Net assets - beginning of year	3,543,791	3,429,349	8,268,052	8,205,133	11,811,843	11,634,482
<b>Net assets - end of year</b>	<b>\$4,128,674</b>	<b>\$3,543,791</b>	<b>\$8,204,132</b>	<b>\$8,268,052</b>	<b>\$12,332,806</b>	<b>\$11,811,843</b>

The Operating grants and Contributions figure includes penal fines for the Library and Township fire contracts for the Fire Department.

The amounts in Other Governmental Sources includes State Revenue Sharing, Act 51 Gas Tax funds and contributions from the Downtown Development Authority (DDA).

**Governmental activities.** During the year the City continued its emphasis in public safety by investing \$561,631 or 33% of governmental activities expenses. Culture and recreation, which includes library operations was \$253,734 or 15% of governmental activities expenses while general government, public works and streets and interest on long-term debt made up the remaining 52% of governmental activities expenses.

The Governmental activities represented above included Police Department and Fire Department operations, Department of Public Works, Library, Major Streets, and Administrative functions.

**Business-type activities.** Net assets decreased by \$63,920 compared to the previous fiscal year increase of \$62,919. These activities included Water and Sewer operations and the Equipment Pool.

### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,155,980, an increase of \$63,203 in comparison with the prior year. The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$370,680. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 25 percent of total general fund expenditures. The City Council's annual target is 25 percent of total general fund expenditures.

The fund balance of the City's general fund increased by \$44,958 during the current fiscal year which was considerably more than the budgeted amount of \$(20,694).

The fire equipment replacement fund has a total fund balance of \$57,941, which increased by \$7,383 during the year.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water fund at the end of the year amounted to \$637,883. The fund had a decrease in net assets for the year of \$63,920. Factors concerning the finances of the fund have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the final and amended budgets for expenditures amounted to 9.9% for the year. Most of the difference is attributed to decreases in expenditures.

During the year, general fund revenues were less than budgetary estimates and expenditures were also less. An actual increase in fund balance resulted that was more than the final amended budget amount by \$65,652.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounted to \$13,257,982 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, motor pool equipment, motor vehicles, infrastructure and construction in progress, machinery and equipment. Significant capital assets acquired during the year consisted primarily of new sidewalks and a new fire truck.

The total increase in the City's investment in capital assets for the 2008 fiscal year was 1.2% (a 14.4% increase for governmental activities and a 3.1% decrease for business-type activities).

**City of Reed City Capital Assets**  
(net of depreciation)

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Land	\$ 93,104	\$ 93,104	\$ 30,305	\$ 30,305	\$ 123,409	\$ 123,409
Land improvements	86,879	93,004	47,087	48,838	133,966	141,842
Buildings and Improvements	1,582,341	1,598,828	10,145	10,492	1,592,486	1,609,320
Furniture and equipment	892,201	724,693	126,678	140,343	1,018,879	865,036
Infrastructure	713,268	654,900	-	-	713,268	654,900
Water System	-	-	2,030,469	644,603	2,030,469	644,603
Sewer System	-	-	7,227,871	7,503,193	7,227,871	7,503,193
Construction in progress	328,205	67,404	89,429	1,490,589	417,634	1,557,993
<b>Total</b>	<b>\$3,695,998</b>	<b>\$3,231,933</b>	<b>\$9,561,984</b>	<b>\$9,868,363</b>	<b>\$13,257,982</b>	<b>\$13,100,296</b>

Additional information on the City of Reed City's capital assets can be found in Note 6 on pages 36 and 37 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$3,504,139 as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
General obligation bonds	\$518,000	\$529,000	\$ -	\$ -	\$ 518,000	\$ 529,000
Special assessment with government commitment	100,000	125,000	-	-	100,000	125,000
Installment notes	219,000	230,000	1,600,881	1,523,517	1,819,881	1,753,517
Revenue bonds	-	-	915,000	1,035,000	915,000	1,035,000
Long-term compensated absences	92,586	87,857	58,672	53,271	151,258	141,128
<b>Total</b>	<b>\$929,586</b>	<b>\$971,857</b>	<b>\$2,574,553</b>	<b>\$2,611,788</b>	<b>\$3,504,139</b>	<b>\$3,583,645</b>

The City's total debt decreased by \$79,506 during the current fiscal year.

Additional information on the City's long-term debt can be found in Note 7 on pages 38 and 39 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2008-09 fiscal year:

- Increased employee wages and benefit cost.
- Increased health insurance cost.
- Limited increased property tax revenue.
- Stable water and sewer revenues.
- A slight increase in state revenue sharing payments.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 227 East Lincoln Avenue, Reed City, Michigan, 49677.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF REED CITY

## Statement of Net Assets

**June 30, 2008**

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b>Assets</b>				
Cash and cash equivalents	\$ 1,179,770	\$ 453,432	\$ 1,633,202	\$ 214,770
Receivables, net	311,288	308,439	619,727	1,158,303
Prepaid items and other assets	15,224	86,369	101,593	-
Restricted cash and cash equivalents	-	520,146	520,146	-
Capital assets not being depreciated	421,309	119,734	541,043	735,232
Capital assets being depreciated, net	3,274,689	9,442,250	12,716,939	6,682
<b>Total assets</b>	<b>5,202,280</b>	<b>10,930,370</b>	<b>16,132,650</b>	<b>2,114,987</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	144,020	151,685	295,705	162,692
Noncurrent liabilities:				
Due within one year	48,000	215,749	263,749	191,464
Due in more than one year	881,586	2,358,804	3,240,390	1,889,181
<b>Total liabilities</b>	<b>1,073,606</b>	<b>2,726,238</b>	<b>3,799,844</b>	<b>2,243,337</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	2,858,998	7,046,103	9,905,101	-
Restricted for:				
Highways and streets	88,040	-	88,040	-
Capital projects	22,119	-	22,119	-
Public safety	61,471	-	61,471	-
Debt service	140,217	520,146	660,363	-
Recreation and culture	175,280	-	175,280	-
Nonexpendable perpetual trust:				
Cemetery - expendable portion	14,013	-	14,013	-
Cemetery - corpus	33,750	-	33,750	-
Unrestricted (deficit)	734,786	637,883	1,372,669	(128,350)
<b>Total net assets (deficit)</b>	<b>\$ 4,128,674</b>	<b>\$ 8,204,132</b>	<b>\$ 12,332,806</b>	<b>\$ (128,350)</b>

The accompanying notes are an integral part of these financial statements.



# CITY OF REED CITY

## Statement of Activities

**For the Year Ended June 30, 2008**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 375,141	\$ 203,259	\$ 1,162	\$ 188,567	\$ 17,847
Public safety	561,631	308	295,614	40,000	(225,709)
Highways and streets	278,003	-	-	-	(278,003)
Recreation and culture	253,734	3,954	95,027	-	(154,753)
Public works	189,568	30,047	-	-	(159,521)
Interest on long-term debt	37,275	-	-	-	(37,275)
Total governmental activities	<u>1,695,352</u>	<u>237,568</u>	<u>391,803</u>	<u>228,567</u>	<u>(837,414)</u>
Business-type activities:					
Water and sewer	<u>1,725,338</u>	<u>1,588,342</u>	<u>-</u>	<u>24,573</u>	<u>(112,423)</u>
Total primary government	<u>\$ 3,420,690</u>	<u>\$ 1,825,910</u>	<u>\$ 391,803</u>	<u>\$ 253,140</u>	<u>\$ (949,837)</u>
<b>Component unit</b>					
Downtown development	\$ 1,022,338	\$ -	\$ -	\$ 250,000	\$ (772,338)
Brownfield redevelopment	<u>65,761</u>	<u>-</u>	<u>65,761</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 1,088,099</u>	<u>\$ -</u>	<u>\$ 65,761</u>	<u>\$ 250,000</u>	<u>\$ (772,338)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Statement of Activities (Concluded)

**For the Year Ended June 30, 2008**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (837,414)	\$ (112,423)	\$ (949,837)	\$ (772,338)
General revenues:				
Property taxes	667,233	-	667,233	621,822
State shared revenues	515,657	-	515,657	-
Local sources	129,830	-	129,830	-
Interest earnings	70,679	50,503	121,182	25,802
Other general revenues	36,898	-	36,898	458,684
Transfers - internal activities	2,000	(2,000)	-	-
 Total general revenues and transfers	 1,422,297	 48,503	 1,470,800	 1,106,308
 Change in net assets	 584,883	 (63,920)	 520,963	 333,970
 Net assets (deficit), beginning of year	 3,543,791	 8,268,052	 11,811,843	 (462,320)
 <b>Net assets (deficit), end of year</b>	 <u>\$ 4,128,674</u>	 <u>\$ 8,204,132</u>	 <u>\$ 12,332,806</u>	 <u>\$ (128,350)</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Balance Sheet Governmental Funds

June 30, 2008

	General Fund	Fire Equipment Replacement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 304,387	\$ 57,941	\$ 676,292	\$ 1,038,620
Accounts receivable	41,422	-	448	41,870
Special assessments receivable	-	-	50,081	50,081
Due from other governmental units	182,661	-	36,676	219,337
Prepaid items	13,518	-	1,207	14,725
	<u>541,988</u>	<u>57,941</u>	<u>764,704</u>	<u>1,364,633</u>
Total assets	<u>\$ 541,988</u>	<u>\$ 57,941</u>	<u>\$ 764,704</u>	<u>\$ 1,364,633</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 99,862	\$ -	\$ 9,229	\$ 109,091
Accrued liabilities	18,800	-	2,740	21,540
Due to other funds	39,128	-	4,702	43,830
Deferred revenue	-	-	34,192	34,192
	<u>157,790</u>	<u>-</u>	<u>50,863</u>	<u>208,653</u>
Total liabilities	<u>157,790</u>	<u>-</u>	<u>50,863</u>	<u>208,653</u>
<b>Fund balances</b>				
Reserved for:				
Prepaid items	13,518	-	1,207	14,725
Cemetery perpetual care	-	-	33,750	33,750
Unreserved:				
Designated for subsequent year expenditures	21,090	-	27,021	48,111
Undesignated	349,590	57,941	-	407,531
Undesignated, reported in nonmajor:				
Special Revenue Funds	-	-	517,366	517,366
Debt Service Funds	-	-	98,365	98,365
Capital Projects Funds	-	-	22,119	22,119
Permanent Fund	-	-	14,013	14,013
	<u>384,198</u>	<u>57,941</u>	<u>713,841</u>	<u>1,155,980</u>
Total fund balances	<u>384,198</u>	<u>57,941</u>	<u>713,841</u>	<u>1,155,980</u>
Total liabilities and fund balances	<u>\$ 541,988</u>	<u>\$ 57,941</u>	<u>\$ 764,704</u>	<u>\$ 1,364,633</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2008

Fund balances - total governmental funds	\$ 1,155,980
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - capital assets not being depreciated	421,309
Add - capital assets, net of accumulated depreciation	3,274,689

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred special assessments receivable	34,192
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An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities.

Add - net assets of governmental activities accounted for in the internal service fund	333,866
Deduct - capital assets accounted for in the internal service fund, net of accumulated depreciation	(203,173)
Add - compensated absences accounted for in the internal service fund	50,562

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds payable	(837,000)
Deduct - compensated absences	(92,586)
Deduct - accrued interest on long-term liabilities	(9,165)

Net assets of governmental activities	<u>\$ 4,128,674</u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Fire Equipment Replacement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ 596,635	\$ -	\$ 70,598	\$ 667,233
Special assessments	-	-	19,806	19,806
Licenses and permits	22,066	-	-	22,066
Intergovernmental revenue:				
Federal	188,567	216,553	-	405,120
State	256,596	-	256,643	513,239
Local	113,780	40,000	16,050	169,830
Charges for services	156,403	-	-	156,403
Fines	7,579	-	-	7,579
Interest and other	184,391	7,068	139,990	331,449
	<u>1,526,017</u>	<u>263,621</u>	<u>503,087</u>	<u>2,292,725</u>
Total revenues				
	<u>1,526,017</u>	<u>263,621</u>	<u>503,087</u>	<u>2,292,725</u>
<b>Expenditures</b>				
Current:				
Legislative	29,737	-	-	29,737
General government	304,229	-	366	304,595
Public safety	501,906	-	410	502,316
Public works	188,355	-	263,361	451,716
Culture and recreation	83,127	-	116,001	199,128
Other governmental functions	105,063	-	-	105,063
Debt service:				
Principal	-	-	47,000	47,000
Interest	-	-	37,978	37,978
Capital outlay	281,193	240,790	41,006	562,989
	<u>1,493,610</u>	<u>240,790</u>	<u>506,122</u>	<u>2,240,522</u>
Total expenditures				
	<u>1,493,610</u>	<u>240,790</u>	<u>506,122</u>	<u>2,240,522</u>
Revenues over (under) expenditures	<u>32,407</u>	<u>22,831</u>	<u>(3,035)</u>	<u>52,203</u>
<b>Other financing sources (uses)</b>				
Transfers in	21,958	-	106,082	128,040
Transfers (out)	(9,407)	(15,448)	(92,185)	(117,040)
	<u>12,551</u>	<u>(15,448)</u>	<u>13,897</u>	<u>11,000</u>
Total other financing sources (uses)				
	<u>12,551</u>	<u>(15,448)</u>	<u>13,897</u>	<u>11,000</u>
Net changes in fund balances	44,958	7,383	10,862	63,203
Fund balances, beginning of year	339,240	50,558	702,979	1,092,777
<b>Fund balances, end of year</b>	<u>\$ 384,198</u>	<u>\$ 57,941</u>	<u>\$ 713,841</u>	<u>\$ 1,155,980</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2008

Net changes in fund balances - total governmental funds \$ 63,203

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	632,460
Deduct - depreciation expense	(133,058)
Loss realized on sale of capital assets	(1,215)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Deduct - decrease in deferred long-term receivables	(19,806)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	47,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add - decrease in accrued interest on bonds	703
Deduct - increase in the accrual for compensated absences	(4,748)

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - income from governmental activities in internal service fund	<u>344</u>
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Change in net assets of governmental activities	<u><u>\$ 584,883</u></u>
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The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Statement of Revenues, Expenditures and Change in Fund Balance Budget and Actual General Fund

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Taxes	\$ 574,600	\$ 595,400	\$ 596,635	\$ 1,235
Licenses and permits	20,650	20,650	22,066	1,416
Intergovernmental revenues:				
Federal	221,165	221,165	188,567	(32,598)
State	267,692	267,692	256,596	(11,096)
Local	179,735	179,735	113,780	(65,955)
Charges for services	118,265	130,929	156,403	25,474
Fines and forfeits	10,000	10,000	7,579	(2,421)
Interest and other	188,590	191,845	184,391	(7,454)
Total revenues	1,580,697	1,617,416	1,526,017	(91,399)
<b>Expenditures</b>				
Current:				
Legislative	19,881	32,381	29,737	(2,644)
General government	311,120	321,860	304,229	(17,631)
Public safety	491,108	514,887	501,906	(12,981)
Public works	181,076	197,010	188,355	(8,655)
Culture and recreation	72,374	89,624	83,127	(6,497)
Other governmental functions	159,790	130,000	105,063	(24,937)
Debt service:				
Interest	675	675	-	(675)
Capital outlay	355,516	370,516	281,193	(89,323)
Total expenditures	1,591,540	1,656,953	1,493,610	(163,343)
Revenues over (under) expenditures	(10,843)	(39,537)	32,407	71,944
<b>Other financing sources (uses)</b>				
Transfers in	20,250	28,250	21,958	(6,292)
Transfers (out)	(9,407)	(9,407)	(9,407)	-
Total other financing sources (uses)	10,843	18,843	12,551	(6,292)
Net change in fund balance	-	(20,694)	44,958	65,652
Fund balance, beginning of year	339,240	339,240	339,240	-
<b>Fund balance, end of year</b>	<u>\$ 339,240</u>	<u>\$ 318,546</u>	<u>\$ 384,198</u>	<u>\$ 65,652</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Fire Equipment Replacement

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Intergovernmental:				
Federal	\$ -	\$ 216,553	\$ 216,553	\$ -
Local	40,000	40,000	40,000	-
Charges for services	19,139	19,139	-	(19,139)
Interest and other	3,000	3,000	7,068	4,068
Total revenues	62,139	278,692	263,621	(15,071)
<b>Expenditures</b>				
Public safety	46,691	22,080	-	(22,080)
Capital outlay	-	241,164	240,790	(374)
Total expenditures	46,691	263,244	240,790	(22,454)
Net change in fund balances	15,448	15,448	22,831	7,383
<b>Other financing sources (uses)</b>				
Transfers (out)	(15,448)	(15,448)	(15,448)	-
Net change in fund balance	-	-	7,383	7,383
Fund balance, beginning of year	50,558	50,558	50,558	-
<b>Fund balance, end of year</b>	<b>\$ 50,558</b>	<b>\$ 50,558</b>	<b>\$ 57,941</b>	<b>\$ 7,383</b>

The accompanying notes are an integral part of these financial statements.



# CITY OF REED CITY

## Statement of Net Assets Proprietary Funds

June 30, 2008

	<u>Business-Type Activities</u> <u>Water &amp; Sewer Enterprise Fund</u>	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 453,432	\$ 141,150
Accounts receivable, net of allowance	283,866	-
Due from other governmental units	24,573	-
Inventory	13,179	-
Bond issuance costs, net of accumulated amortization	69,545	-
Due from other funds	-	43,830
Prepaid items	3,645	499
Restricted cash and cash equivalents	520,146	-
	<u>1,368,386</u>	<u>185,479</u>
Total current assets		
	<u>1,368,386</u>	<u>185,479</u>
Non-current assets:		
Capital assets:		
Land	30,305	-
Construction in progress	89,429	-
Property, plant and equipment	14,371,280	-
Machinery and equipment	-	753,183
Less: accumulated depreciation	(4,929,030)	(550,010)
	<u>9,561,984</u>	<u>203,173</u>
Total non-current assets		
	<u>9,561,984</u>	<u>203,173</u>
Total assets	<u>10,930,370</u>	<u>388,652</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	125,520	3,720
Accrued liabilities	26,165	504
Current maturity of bonds, notes payable and compensated absences	215,749	-
	<u>367,434</u>	<u>4,224</u>
Total current liabilities		
	<u>367,434</u>	<u>4,224</u>
Noncurrent liabilities:		
Bonds, notes payable and compensated absences, net of current maturities	2,358,804	50,562
	<u>2,358,804</u>	<u>50,562</u>
Total liabilities		
	<u>2,726,238</u>	<u>54,786</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	7,046,103	203,173
Restricted for debt service	520,146	-
Unrestricted	637,883	130,693
	<u>8,204,132</u>	<u>333,866</u>
Total net assets		
	<u>\$ 8,204,132</u>	<u>\$ 333,866</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2008

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Water &amp; Sewer Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Operating revenues</b>		
Charges for services	\$ 1,519,407	\$ 208,624
Miscellaneous	68,935	303
	<hr/>	<hr/>
Total operating revenues	1,588,342	208,927
	<hr/>	<hr/>
<b>Operating expenses</b>		
Personnel services	439,964	60,363
Contractual services	292,341	23,699
Materials and supplies	76,651	42,813
Utilities	285,488	11,619
Repairs and maintenance	60,345	25,308
Lease and rental	29,143	-
Depreciation and amortization	380,790	41,099
Miscellaneous	68,617	-
	<hr/>	<hr/>
Total operating expenses	1,633,339	204,901
	<hr/>	<hr/>
Operating income (loss)	(44,997)	4,026
	<hr/>	<hr/>
<b>Non-operating revenues (expenses)</b>		
Interest income	50,503	5,318
Interest expense	(91,999)	-
	<hr/>	<hr/>
Total non-operating revenues (expenses)	(41,496)	5,318
	<hr/>	<hr/>
Net income (loss) before transfers	(86,493)	9,344
	<hr/>	<hr/>
<b>Transfers out</b>	(2,000)	(9,000)
	<hr/>	<hr/>
<b>Capital contributions</b>	24,573	-
	<hr/>	<hr/>
Change in net assets	(63,920)	344
	<hr/>	<hr/>
Net assets, beginning of year	8,268,052	333,522
	<hr/>	<hr/>
<b>Net assets, end of year</b>	<u>\$ 8,204,132</u>	<u>\$ 333,866</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2008

	<u>Business-Type Activities</u> <u>Water &amp; Sewer Enterprise Fund</u>	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>Cash flows from operating activities</b>		
Receipts from interfund services provided	\$ -	\$ 208,927
Receipts from customers and users	1,511,684	-
Payments to suppliers	(887,851)	(105,759)
Payments to employees	(439,346)	(60,172)
	<u>184,487</u>	<u>42,996</u>
<b>Cash flows from non-capital financing activities</b>		
Transfers (out)	(2,000)	(9,000)
	<u>(2,000)</u>	<u>(9,000)</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(102,615)	(6,977)
Principal paid on bonds	(214,188)	-
Issuance of bonds	171,552	-
Interest and fiscal charges paid	(87,960)	-
	<u>(233,211)</u>	<u>(6,977)</u>
<b>Cash flows from investing activities</b>		
Interest earned on investments	50,503	5,318
	<u>50,503</u>	<u>5,318</u>
Net (decrease) in cash and cash equivalents	(221)	32,337
Cash and cash equivalents, beginning of year	973,799	108,813
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 973,578</u></u>	<u><u>\$ 141,150</u></u>
<b>Cash and cash equivalents per the statement of net assets</b>		
Cash and cash equivalents	\$ 453,432	\$ 141,150
Restricted cash and cash equivalents	520,146	-
	<u><u>\$ 973,578</u></u>	<u><u>\$ 141,150</u></u>

# CITY OF REED CITY

## Statement of Cash Flows Proprietary Funds (Concluded)

For the Year Ended June 30, 2008

	<b>Business-Type Activities</b>	<b>Governmental Activities</b>
	<b>Water &amp; Sewer Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>Cash flows from operating activities</b>		
Operating income (loss)	\$ (44,997)	\$ 4,026
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	380,790	41,099
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(82,059)	-
Inventory	(7,868)	-
Prepaid items	(380)	(89)
Accounts payable	(67,018)	(2,231)
Accrued liabilities	618	(47)
Compensated absences	5,401	238
Net cash provided by operating activities	<u>\$ 184,487</u>	<u>\$ 42,996</u>

The accompanying notes are an integral part of these financial statements.

# **CITY OF REED CITY**

## **Statement of Fiduciary Assets and Liabilities Agency Funds**

**June 30, 2008**

### **Assets**

Cash and cash equivalents	\$ 33,951
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### **Liabilities**

Accounts payable	\$ 15,792
Due to other governmental units	2,649
Deposits held for others	<u>15,510</u>
 Total liabilities	 \$ <u>33,951</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**Combining Statement of Net Assets**  
**Component Units**

**June 30, 2008**

	<b>Downtown Development Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 206,731	\$ 8,039	\$ 214,770
Accounts receivable	1,148,869	-	1,148,869
Due from other governments	-	9,434	9,434
Advance to other component unit	5,000	-	5,000
Noncurrent assets:			
Capital assets not being depreciated	735,232	-	735,232
Capital assets being depreciated, net	6,682	-	6,682
	<hr/>	<hr/>	<hr/>
Total assets	2,102,514	17,473	2,119,987
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Accounts payable	118,858	12,090	130,948
Advance from other component unit	-	5,000	5,000
Accrued interest	31,744	-	31,744
Noncurrent liabilities:			
Due within one year	191,464	-	191,464
Bond payable, net of current portion	1,889,181	-	1,889,181
	<hr/>	<hr/>	<hr/>
Total liabilities	2,231,247	17,090	2,248,337
	<hr/>	<hr/>	<hr/>
<b>Net assets</b>			
Unrestricted (deficit)	\$ (128,733)	\$ 383	\$ (128,350)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**Combining Statement of Activities**  
**Component Units**  
**For the Year Ended June 30, 2008**

	<b>Downtown Development Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Expenses</b>			
General government	\$ 934,498	\$ 65,761	\$ 1,000,259
Debt service:			
Interest and fiscal charges	87,841	-	87,841
Total expenses	1,022,339	65,761	1,088,100
<b>Program revenues</b>			
Operating grants - federal	-	65,761	65,761
Capital grants and contributions	250,000	-	250,000
Total program revenues	250,000	65,761	315,761
Net expense	(772,339)	-	(772,339)
<b>General revenues</b>			
Taxes	621,823	-	621,823
Interest and other	484,268	218	484,486
Total general revenues	1,106,091	218	1,106,309
Change in net assets	333,752	218	333,970
Net assets (deficit), beginning of year	(462,485)	165	(462,320)
<b>Net assets (deficit), end of year</b>	<b>\$ (128,733)</b>	<b>\$ 383</b>	<b>\$ (128,350)</b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**



# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Reed City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

#### *The Reporting Entity*

As required by generally accepted accounting principles, these financial statements present the City and its component units--entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City.

#### *Discretely Presented Component Units*

The component units column in the basic financial statements includes the financial data of the Downtown Development Authority and Brownfield Redevelopment Authority. These units are reported in a separate column and rows to emphasize that they are legally separate from the City.

The members of the governing boards of the Authorities are appointed by the City Council. The budgets of the Authorities must be approved by the City Council, and the City has the ability to significantly influence its operations. Financial statements are not separately issued for the component units.

#### *Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Likewise, the *primary government* is reported separately from the *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2008

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Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Equipment Replacement Special Revenue Fund* is used to account for vehicles and equipment purchased specifically for the fire department.

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2008

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The City reports the following major proprietary fund:

The *Sewer and Water Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than perpetual trusts or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Funds* are used to account for the accumulation and disbursement of funds for capital projects.

The *Permanent Fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *Internal Service Funds* account for equipment and vehicle purchases, repairs and maintenance, and charges to compensated absences provided to the City departments on a cost reimbursement basis.

The *Agency Funds* are used to account for assets held in an agency capacity on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment utilization and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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***Budgets and Budgetary Accounting***

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By the second week of May the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year ended June 30, 2008. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Supplemental appropriations were necessary during the year.

***Budgets and Budgetary Accounting***

Budgets for expenditures are adopted on an activity level basis in the General Fund and by function in the Special Revenue funds parenthetically including capital outlay expenditures. Thus, expenditures may not legally exceed the budgeted amounts by activity for the General Fund and by function for the Special Revenue funds.

***Cash and Cash Equivalents***

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

***Restricted Assets***

Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

***Receivables***

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Special assessments receivable include \$34,192 which is expected to be collected in more than one year.

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

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### *Due to/from Other Funds*

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

### *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added in 2003 and forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Buildings	20-50
Office furniture and equipment	5-15
Vehicles	5-10
Public domain infrastructure	10-50
System infrastructure	40-50

### *Deferred Revenue*

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Special assessment (Maplewood Special Assessment Fund)	<u>\$34,192</u>
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**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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***Long-Term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Compensated Absences***

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accumulated vacation time of governmental funds is recorded on statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources.

***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

### 2. DEFICIT NET ASSETS

At June 30, 2008, the City had deficit net assets of \$128,733 in the Downtown Development Authority Component Unit as presented on the full accrual basis of accounting. However, no deficit exists in the individual funds presented on the modified accrual basis of accounting.

### 3. CASH AND INVESTMENTS

Cash and investments consist of the following at June 30, 2008:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Totals</u>
<b>Statement of Net Assets</b>			
Cash and cash equivalents	\$ 1,633,202	\$ 214,770	\$ 1,847,972
Restricted cash and cash equivalents	520,146	-	520,146
<b>Statement of Fiduciary Net Assets</b>			
Cash and cash equivalents	<u>33,951</u>	<u>-</u>	<u>33,951</u>
	<u><b>\$ 2,187,299</b></u>	<u><b>\$ 214,770</b></u>	<u><b>\$ 2,402,069</b></u>
<b>Deposits and Investments</b>			
Cash on hand		\$	431
Checking/savings accounts			812,468
Certificates of deposit			<u>1,589,170</u>
			<u><b>\$ 2,402,069</b></u>

#### *Deposits*

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$2,025,263 of the City's bank balance of \$2,590,780 was exposed to custodial credit risk because it was uninsured and uncollateralized.

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

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### *Investments*

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificate of Deposit	< 1 year	\$872,877
Certificate of Deposit	1-5 years	716,293

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified below in the Statutory Authority section. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year end.

### *Statutory Authority*

Act 217, PA 1982, authorizes the City to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.



# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2008**

### 4. INTERFUND RECEIVABLES AND PAYABLES

	<b>Due from Other Funds</b>	<b>Due to Other Funds</b>
General Fund	\$ -	\$ 39,128
Major Streets Fund	-	2,775
Local Streets Fund	-	1,927
Internal Service Fund - Compensated Absences	43,830	-
	<b><u>\$ 43,830</u></b>	<b><u>\$ 43,830</u></b>

Interfund balances primarily reflect loans made from funds with cash and cash equivalents to those funds requiring temporary cash flow needs.

### 5. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2008 are as follows:

	<b>General Fund</b>	<b>Transfers in Nonmajor Governmental Funds</b>	<b>Total</b>
Transfers out:			
General Fund	\$ -	\$ 9,407	\$ 9,407
Fire Equipment Replacement Fund	5,000	10,448	15,448
Sewer & Water Enterprise Fund	-	2,000	2,000
Internal Service	8,000	1,000	9,000
Nonmajor Governmental Funds	<u>8,958</u>	<u>83,227</u>	<u>92,185</u>
Total	<u>\$ 21,958</u>	<u>\$ 106,082</u>	<u>\$ 128,040</u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2008

#### 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2008</u>
<i><b>Governmental activities</b></i>				
Capital assets, not being depreciated:				
Land	\$ 93,104	\$ -	\$ -	\$ 93,104
Construction in progress	67,404	260,801	-	328,205
Total capital assets, not being depreciated	160,508	260,801	-	421,309
Capital assets, being depreciated:				
Land improvements	146,244	1,500	1,215	146,529
Buildings and improvements	1,808,579	12,096	-	1,820,675
Machinery and equipment	1,671,871	273,172	-	1,945,043
Infrastructure	714,119	91,868	-	805,987
Total capital assets, being depreciated	4,340,813	378,636	1,215	4,718,234
Less accumulated depreciation for:				
Land improvements	53,240	6,410	-	59,650
Buildings and improvements	209,751	28,584	-	238,335
Furniture and equipment	947,178	105,663	-	1,052,841
Infrastructure	59,219	33,500	-	92,719
Total accumulated depreciation	1,269,388	174,157	-	1,443,545
Net capital assets, being depreciated	3,071,425	204,479	1,215	3,274,689
Net governmental activities capital Assets	\$ 3,231,933	\$ 465,280	\$ 1,215	\$ 3,695,998
<i><b>Business-type activities</b></i>				
Capital assets, not being depreciated:				
Land	\$ 30,305	\$ -	\$ -	\$ 30,305
Construction in process	1,490,589	73,929	1,475,089	89,429
Total capital assets, not being Depreciated	1,520,894	73,929	1,475,089	119,734
Capital assets, being depreciated:				
Buildings	39,479	-	-	39,479
Land improvements	70,031	-	-	70,031
Equipment	343,267	7,843	-	351,110
Water system	1,429,986	1,462,737	-	2,892,723
Sewer system	11,012,946	4,991	-	11,017,937
Total capital assets, being Depreciated	12,895,709	1,475,571	-	14,371,280

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED JUNE 30, 2008**

	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2008</b>
Less accumulated depreciation for:				
Buildings	\$ 28,987	\$ 347	\$ -	\$ 29,334
Land improvements	21,193	1,751	-	22,944
Equipment	202,924	21,508	-	224,432
Water system	785,383	76,871	-	862,254
Sewer system	3,509,753	280,313	-	3,790,066
Total accumulated depreciation	4,548,240	380,790	-	4,929,030
Net capital assets, being depreciated	8,347,469	1,094,781	-	9,442,250
Business-type activities capital assets, net	<u>\$ 9,868,363</u>	<u>\$ 1,168,710</u>	<u>\$ 1,475,089</u>	<u>\$ 9,561,984</u>
<b>Component unit</b>				
Capital assets, not being depreciated:				
Land	\$ -	\$ 25,233	\$ -	\$ 25,233
Construction in progress	-	709,999	-	709,999
Total capital assets, not being depreciated	-	735,232	-	735,232
Capital assets, being depreciated:				
Buildings	-	857,224	850,000	7,224
Less accumulated depreciation for:				
Buildings	-	542	-	542
Net capital assets, being depreciated	-	856,682	850,000	6,682
Net component unit capital assets	<u>\$ -</u>	<u>\$1,591,914</u>	<u>\$ 850,000</u>	<u>\$ 741,914</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 4,861
Public safety	59,315
Recreation and culture	54,240
Public works	14,642
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>41,099</u>
Total depreciation expense – governmental activities	<u>\$174,157</u>

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2008

#### 7. LONG-TERM DEBT

The following is a summary of debt transactions of the City for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
<b><i>Governmental activities</i></b>					
\$230,000 Equipment installment note due in annual installments of \$11,000 to \$20,000 through February, 2022; interest at 4.13%	\$ 230,000	\$ -	\$ 11,000	\$ 219,000	\$ 11,000
\$225,000 Special Assessment Bonds of 2002 due in annual installments of \$20,000 to \$25,000 through September 2011; average interest at 3.994%.	125,000	-	25,000	100,000	25,000
\$575,000 Fire Station General Obligation Bonds of 2002 due in annual installments of \$9,000 to \$37,000 through May 2032; interest at 4.625%.	529,000	-	11,000	518,000	12,000
Subtotal-installment debt	884,000	-	47,000	837,000	48,000
Long-term compensated absences	87,857	4,729	-	92,586	-
Total governmental activities	<u>\$ 971,857</u>	<u>\$ 4,729</u>	<u>\$ 47,000</u>	<u>\$ 929,586</u>	<u>\$ 48,000</u>
<b><i>Business-type activities</i></b>					
\$1,105,000 Water Supply/Wastewater System Revenue Bonds of 1998 due in annual installments of \$40,000 to \$85,000 through November 2019; interest at rates varying from 4.3% to 5.2%.	\$ 805,000	\$ -	\$ 45,000	\$ 760,000	\$ 45,000
\$1,605,000 Drinking Water Revolving Fund Bonds of 2006 due in annual installments of \$65,000 to \$90,000 through April 2027; interest at 2.13%.	1,303,539	171,552	65,000	1,410,091	65,000
\$435,000 Water Supply and Wastewater System Revenue Refunding Bonds of 2004 due in annual installments of \$65,000 to \$80,000 through July 2010; interest at rates varying from 1.87% to 3.84%.	230,000	-	75,000	155,000	75,000
Equipment installment note due in semi-annual installments of approximately \$20,200 including interest through August 2013; interest at 5.28%.	219,978	-	29,188	190,790	30,749
Subtotal-long term debt	2,558,517	171,552	214,188	2,515,881	215,749
Long-term compensated absences	53,271	5,401	-	58,672	-
Total business-type activities	<u>\$2,611,788</u>	<u>\$ 176,953</u>	<u>\$ 214,188</u>	<u>\$2,574,553</u>	<u>\$ 215,749</u>

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED JUNE 30, 2008

	<b>Balance July 1, 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2008</b>	<b>Due Within One Year</b>
<b>Component unit</b>					
\$1,300,000 Downtown Development Revenue Bonds of 1998 due in annual installments of \$25,000 to \$250,000 through 2017; interest rates varying from 5.25% to 5.75%.	\$ 1,060,000	\$ -	\$ 70,000	\$ 990,000	\$ 75,000
\$490,645 note payable due in annual installments of \$116,464 to \$128,977 through February 2012; interest at 3.40%	-	490,645	-	490,645	116,464
\$600,000 land contract due in annual installments of \$120,000 through August 2014; interest at 4.0%	-	600,000	-	600,000	-
<b>Total component unit</b>	<b>\$ 1,060,000</b>	<b>\$ 1,090,645</b>	<b>\$ 70,000</b>	<b>\$2,080,645</b>	<b>\$ 191,464</b>

For the governmental activities, long-term compensated absences are generally liquidated by the general fund.

The annual requirements to amortize all debt outstanding (excluding long-term compensated absences) as of June 30, 2008 are as follows:

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Component Unit</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2009	\$ 48,000	\$ 36,261	\$ 215,749	\$ 82,840	\$ 191,464	\$ 97,885
2010	49,000	34,293	232,394	74,893	195,525	89,512
2011	51,000	32,029	154,127	66,226	324,679	81,044
2012	52,000	29,978	160,953	60,365	338,977	67,346
2013	28,000	28,616	172,876	54,107	215,000	52,925
2014-2018	161,000	123,482	739,691	185,351	815,000	110,139
2019-2023	180,000	84,886	595,000	62,695	-	-
2024-2028	133,000	50,274	245,091	9,781	-	-
2029-2032	135,000	16,049	-	-	-	-
<b>Total</b>	<b>\$837,000</b>	<b>\$ 435,868</b>	<b>\$2,515,881</b>	<b>\$596,258</b>	<b>\$ 2,080,645</b>	<b>\$ 498,851</b>

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

### 8. PENSION PLAN

#### *Plan Description*

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year ranged from 17.63 to 31.37 percent. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board.

For the year ended June 30, 2008, the City's annual pension cost of \$189,142 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2007 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was 30 years.

#### **Trend Information**

<b>Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2005	\$198,134	100%	\$ -
2006	193,704	100%	-
2007	189,142	100%	-

#### **Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio Total</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2005	\$ 2,685,041	\$ 3,846,839	\$ 1,161,798	70%	\$ 932,025	125%
12/31/2006	2,929,086	4,098,465	1,169,379	71%	932,088	125%
12/31/2007	3,178,040	4,398,683	1,220,643	72%	905,656	135%

# CITY OF REED CITY

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

### 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City carries commercial health, medical, and optical insurance. Statement No. 10 of the Governmental Accounting Standards Board requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

### 10. CONCENTRATIONS

The City has a significant economic dependence on a local corporation that is a major employer, taxpayer, and user of water and sewer services. The following is the percentage of taxes and utilities paid by the corporation:

	Amount	Percent of Total
Property taxes	\$ 340,807	35%
Water and sewer billing	981,178	60%
Water and sewer accounts receivable	153,100	54%

### 11. CONTINGENT LIABILITY

#### *Wastewater Treatment Plant*

The City owns a parcel of land that is used for its wastewater treatment plant. The parcel was previously owned by Koppers Company which operated a creosote plant treating poles and railroad ties. The Department of Natural Resources claims that the City may be a possible responsible party because it presently owns the property and must be involved in the study and remedial action. Creosote leaking into a river is being purged and treated in the City's wastewater treatment plant. Total costs of the clean-up could be substantial. The City of Reed City and Beazer East, Inc. (the successor to Koppers) have entered into an agreement regarding certain cost sharing which requires, among other things, that the City is to treat water from the wells. There has not been a determination of responsible parties, the cost of the project, or whether the costs will be covered by insurance. Based on these factors, no provision for the contingency is included in the financial statements.

The City has also been notified by the Department of Environmental Quality of certain violations at its wastewater treatment plant. The potential cost to the City as a result of the violations is unknown.

#### *Landfill*

From September 17, 1968 until March 8, 1985, the City operated a landfill, which is now privately owned and operated. The City, Richmond Sanitary Landfill, Inc. and the Department of Natural Resources entered into a Consent Agreement which outlines certain obligations of the parties regarding the capping of the landfill. The majority of the City's requirements under the Consent Agreement have been completed. It is impossible to determine the financial obligation that the City of Reed City may ultimately have regarding the landfill until further studies and tests are done. If there are contamination problems at the landfill and the City is held liable, the cost to the City could be significant.

# **CITY OF REED CITY**

## **NOTES TO FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED JUNE 30, 2008**

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#### ***Downtown Development Authority***

The Downtown Development Authority has entered into an agreement to pay \$100,000 per year for ten years beginning in the year ended June 30, 2005, for their portion of a force main project. The payment is contingent on a business in the City maintaining their current production capacity.

\* \* \* \* \*



**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## **NONMAJOR GOVERNMENTAL FUNDS**

# CITY OF REED CITY

## Combining Balance Sheets Nonmajor Governmental Funds

June 30, 2008

	Special Revenue					
	Major Streets	Local Streets	Law Enforcement Training	Library	Maplewood Special Assessment	Emergency Contingency
<b>Assets</b>						
Cash and cash equivalents	\$ 45,175	\$ 11,247	\$ 3,346	\$ 163,270	\$ 936	\$ 261,919
Accounts receivable, net of allowance	-	-	-	304	-	-
Special assessments receivable	-	-	-	-	50,081	-
Due from other governmental units	29,204	7,472	-	-	-	-
Prepaid items	564	390	-	253	-	-
Total assets	\$ 74,943	\$ 19,109	\$ 3,346	\$ 163,827	\$ 51,017	\$ 261,919
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 60	\$ 60	\$ -	\$ 9,109	\$ -	\$ -
Accrued liabilities	675	515	-	1,550	-	-
Due to other funds	2,775	1,927	-	-	-	-
Deferred revenue	-	-	-	-	34,192	-
Total liabilities	3,510	2,502	-	10,659	34,192	-
<b>Fund balances</b>						
Reserved for :						
Prepaid items	564	390	-	253	-	-
Cemetery perpetual care	-	-	-	-	-	-
Unreserved:						
Designated for subsequent year expenditures	15,405	7,360	-	4,072	-	-
Undesignated	55,464	8,857	3,346	148,843	16,825	261,919
Total fund balances	71,433	16,607	3,346	153,168	16,825	261,919
<b>Total liabilities and fund balances</b>	\$ 74,943	\$ 19,109	\$ 3,346	\$ 163,827	\$ 51,017	\$ 261,919

		Debt Service			Capital Projects		Permanent	Total
Park Commission	Police Reserve Officer	Special Assessment Bond	Fire Truck	Fire Station	Equipment and Replacement	Parks Improvement	Cemetery Perpetual Care	
\$ 22,112	\$ 184	\$ 57,968	\$ 4,438	\$ 35,815	\$ 10,395	\$ 11,724	\$ 47,763	\$ 676,292
-	-	-	-	144	-	-	-	448
-	-	-	-	-	-	-	-	50,081
-	-	-	-	-	-	-	-	36,676
-	-	-	-	-	-	-	-	1,207
<u>\$ 22,112</u>	<u>\$ 184</u>	<u>\$ 57,968</u>	<u>\$ 4,438</u>	<u>\$ 35,959</u>	<u>\$ 10,395</u>	<u>\$ 11,724</u>	<u>\$ 47,763</u>	<u>\$ 764,704</u>

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,229
-	-	-	-	-	-	-	-	2,740
-	-	-	-	-	-	-	-	4,702
-	-	-	-	-	-	-	-	34,192
-	-	-	-	-	-	-	-	50,863

-	-	-	-	-	-	-	-	1,207
-	-	-	-	-	-	-	33,750	33,750
-	184	-	-	-	-	-	-	27,021
22,112	-	57,968	4,438	35,959	10,395	11,724	14,013	651,863
22,112	184	57,968	4,438	35,959	10,395	11,724	47,763	713,841
<u>\$ 22,112</u>	<u>\$ 184</u>	<u>\$ 57,968</u>	<u>\$ 4,438</u>	<u>\$ 35,959</u>	<u>\$ 10,395</u>	<u>\$ 11,724</u>	<u>\$ 47,763</u>	<u>\$ 764,704</u>

# CITY OF REED CITY

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2008

	Special Revenue					
	Major Streets	Local Streets	Law Enforcement Training	Library	Maplewood Special Assessment	Emergency Contingency
<b>Revenues</b>						
Property taxes	\$ -	\$ -	\$ -	\$ 34,432	\$ -	\$ -
Special assessments	-	-	-	-	19,806	-
Intergovernmental:						
State	193,215	63,428	-	-	-	-
Local	-	-	-	-	-	-
Interest and other	3,098	918	1,073	95,518	5,064	11,841
Total revenues	196,313	64,346	1,073	129,950	24,870	11,841
<b>Expenditures</b>						
Current:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	161,363	101,998	-	-	-	-
Culture and recreation	-	-	-	98,261	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	11,126	-	-	22,028	-	-
Total expenditures	172,489	101,998	-	120,289	-	-
Revenues over (under) expenditures	23,824	(37,652)	1,073	9,661	24,870	11,841
<b>Other financing sources (uses)</b>						
Transfers in	8,406	49,221	-	-	-	-
Transfers out	(49,221)	(8,406)	(880)	-	(25,600)	(8,078)
Total other financing sources (uses)	(40,815)	40,815	(880)	-	(25,600)	(8,078)
Net change in fund balances	(16,991)	3,163	193	9,661	(730)	3,763
Fund balances, beginning of year	88,424	13,444	3,153	143,507	17,555	258,156
<b>Fund balances, end of year</b>	<b>\$ 71,433</b>	<b>\$ 16,607</b>	<b>\$ 3,346</b>	<b>\$ 153,168</b>	<b>\$ 16,825</b>	<b>\$ 261,919</b>

		Debt Service			Capital Projects		Permanent	Total
Park Commission	Police Reserve Officer	Special Assessment Bond	Fire Truck	Fire Station	Equipment and Replacement	Parks Improvement	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ 36,166	\$ -	\$ -	\$ -	\$ 70,598
-	-	-	-	-	-	-	-	19,806
-	-	-	-	-	-	-	-	256,643
11,250	-	-	-	-	-	4,800	-	16,050
14,330	368	2,545	252	1,262	1,200	311	2,210	139,990
25,580	368	2,545	252	37,428	1,200	5,111	2,210	503,087
-	-	-	-	-	-	-	366	366
-	410	-	-	-	-	-	-	410
-	-	-	-	-	-	-	-	263,361
17,740	-	-	-	-	-	-	-	116,001
-	-	25,000	11,000	11,000	-	-	-	47,000
-	-	4,713	8,799	24,466	-	-	-	37,978
-	-	-	-	-	1,352	6,500	-	41,006
17,740	410	29,713	19,799	35,466	1,352	6,500	366	506,122
7,840	(42)	(27,168)	(19,547)	1,962	(152)	(1,389)	1,844	(3,035)
-	-	25,600	19,855	-	3,000	-	-	106,082
-	-	-	-	-	-	-	-	(92,185)
-	-	25,600	19,855	-	3,000	-	-	13,897
7,840	(42)	(1,568)	308	1,962	2,848	(1,389)	1,844	10,862
14,272	226	59,536	4,130	33,997	7,547	13,113	45,919	702,979
\$ 22,112	\$ 184	\$ 57,968	\$ 4,438	\$ 35,959	\$ 10,395	\$ 11,724	\$ 47,763	\$ 713,841

**CITY OF REED CITY**

**Schedule of Revenues, Expenditures  
and Changes in Fund Balance  
Budget and Actual  
Major Streets Fund**

**For the Year Ended June 30, 2008**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Budget</b>
<b>Revenues</b>				
Intergovernmental revenues:				
State	\$ 180,087	\$ 201,610	\$ 193,215	\$ (8,395)
Interest and other	3,000	3,000	3,098	98
Total revenues	183,087	204,610	196,313	(8,297)
<b>Expenditures</b>				
Highways and streets	141,604	177,796	161,363	(16,433)
Capital outlay	9,000	11,150	11,126	(24)
Total expenditures	150,604	188,946	172,489	(16,457)
Revenues over expenditures	32,483	15,664	23,824	8,160
<b>Other financing sources (uses)</b>				
Transfers in	9,000	9,000	8,406	(594)
Transfers (out)	(47,221)	(54,121)	(49,221)	4,900
Total other financing sources (uses)	(38,221)	(45,121)	(40,815)	4,306
Net change in fund balance	(5,738)	(29,457)	(16,991)	12,466
Fund balance, beginning of year	88,424	88,424	88,424	-
<b>Fund balance, end of year</b>	<b>\$ 82,686</b>	<b>\$ 58,967</b>	<b>\$ 71,433</b>	<b>\$ 12,466</b>

# CITY OF REED CITY

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Local Streets Fund

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Intergovernmental revenues:				
State	\$ 65,000	\$ 68,000	\$ 63,428	\$ (4,572)
Interest and other	1,000	1,000	918	(82)
Total revenues	66,000	69,000	64,346	(4,654)
<b>Expenditures</b>				
Highways and streets	107,902	117,802	101,998	(15,804)
Revenues over (under) expenditures	(41,902)	(48,802)	(37,652)	11,150
<b>Other financing sources (uses)</b>				
Transfers in	46,221	53,121	49,221	(3,900)
Transfers (out)	(9,500)	(9,500)	(8,406)	1,094
Total other financing sources (uses)	36,721	43,621	40,815	(2,806)
Net change in fund balance	(5,181)	(5,181)	3,163	8,344
Fund balance, beginning of year	13,444	13,444	13,444	-
<b>Fund balance, end of year</b>	<u>\$ 8,263</u>	<u>\$ 8,263</u>	<u>\$ 16,607</u>	<u>\$ 8,344</u>



# CITY OF REED CITY

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Law Enforcement Training

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Interest and other	\$ 1,000	\$ 1,000	\$ 1,073	\$ 73
<b>Other financing sources (uses)</b>				
Transfers (out)	(1,000)	(1,000)	(880)	120
Net change in fund balance	-	-	193	193
Fund balance, beginning of year	3,153	3,153	3,153	-
<b>Fund balance, end of year</b>	<u>\$ 3,153</u>	<u>\$ 3,153</u>	<u>\$ 3,346</u>	<u>\$ 193</u>

# CITY OF REED CITY

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Library Fund

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Property taxes	\$ 33,411	\$ 33,411	\$ 34,432	\$ 1,021
Interest and other	87,600	88,600	95,518	6,918
Total revenues	121,011	122,011	129,950	7,939
<b>Expenditures</b>				
Culture and recreation	102,311	107,177	98,261	(8,916)
Capital outlay	18,700	20,034	22,028	1,994
Total expenditures	121,011	127,211	120,289	(6,922)
Net change in fund balance	-	(5,200)	9,661	14,861
Fund balance, beginning of year	143,507	143,507	143,507	-
<b>Fund balance, end of year</b>	<b>\$ 143,507</b>	<b>\$ 138,307</b>	<b>\$ 153,168</b>	<b>\$ 14,861</b>

# CITY OF REED CITY

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Maplewood Special Assessment Fund

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Special assessments	\$ 17,402	\$ 20,526	\$ 19,806	\$ (720)
Interest and other	4,348	5,074	5,064	(10)
Total revenues	21,750	25,600	24,870	(730)
<b>Other financing sources (uses)</b>				
Transfers (out)	(21,750)	(25,600)	(25,600)	-
Net change in fund balance	-	-	(730)	(730)
Fund balance, beginning of year	17,555	17,555	17,555	-
<b>Fund balance, end of year</b>	<u>\$ 17,555</u>	<u>\$ 17,555</u>	<u>\$ 16,825</u>	<u>\$ (730)</u>

# CITY OF REED CITY

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Emergency Contingency Fund

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Interest and other	\$ 11,750	\$ 11,750	\$ 11,841	\$ 91
<b>Other financing sources (uses)</b>				
Transfers (out)	(11,750)	(11,750)	(8,078)	3,672
Net change in fund balance	-	-	3,763	3,763
Fund balance, beginning of year	258,156	258,156	258,156	-
<b>Fund balance, end of year</b>	<u>\$ 258,156</u>	<u>\$ 258,156</u>	<u>\$ 261,919</u>	<u>\$ 3,763</u>

# CITY OF REED CITY

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Park Commission Fund

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Intergovernmental revenues:				
Local	\$ 10,000	\$ 10,000	\$ 11,250	\$ 1,250
Interest and other	12,950	16,476	14,330	(2,146)
Total revenues	22,950	26,476	25,580	(896)
<b>Expenditures</b>				
Culture and recreation	23,550	27,076	17,740	(9,336)
Net change in fund balance	(600)	(600)	7,840	8,440
Fund balance, beginning of year	14,272	14,272	14,272	-
<b>Fund balance, end of year</b>	<b>\$ 13,672</b>	<b>\$ 13,672</b>	<b>\$ 22,112</b>	<b>\$ 8,440</b>

# CITY OF REED CITY

## Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Police Reserve Officer Fund

For the Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Actual Over (Under) Budget
<b>Revenues</b>				
Interest and other	\$ 1,000	\$ 1,000	\$ 368	\$ (632)
<b>Expenditures</b>				
Public safety	1,000	1,000	410	(590)
Net change in fund balance	-	-	(42)	(42)
Fund balance, beginning of year	226	226	226	-
<b>Fund balance, end of year</b>	<u>\$ 226</u>	<u>\$ 226</u>	<u>\$ 184</u>	<u>\$ (42)</u>

## **INTERNAL SERVICE FUNDS**

# CITY OF REED CITY

## Combining Statement of Net Assets Internal Service Funds

June 30, 2008

	Compensated Absences Fund	Motor Pool Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ -	\$ 141,150	\$ 141,150
Due from other funds	43,830	-	43,830
Prepaid items	-	499	499
Total current assets	43,830	141,649	185,479
Noncurrent assets:			
Capital assets:			
Machinery and equipment	-	753,183	753,183
Less: accumulated depreciation	-	(550,010)	(550,010)
Total noncurrent assets	-	203,173	203,173
Total assets	43,830	344,822	388,652
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	-	3,720	3,720
Accrued liabilities	-	504	504
Total current liabilities	-	4,224	4,224
Noncurrent liabilities:			
Compensated absences	43,830	6,732	50,562
Total liabilities	43,830	10,956	54,786
<b>Net assets</b>			
Invested in capital assets, net of related debt	-	203,173	203,173
Unrestricted	-	130,693	130,693
Total net assets	\$ -	\$ 333,866	\$ 333,866



# CITY OF REED CITY

## Combining Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Funds

For the Year Ended June 30, 2008

	Compensated Absences Fund	Motor Pool Fund	Total
<b>Operating revenues</b>			
Charges for services	\$ -	\$ 208,624	\$ 208,624
Miscellaneous	-	303	303
Total operating revenues	-	208,927	208,927
<b>Operating expenses</b>			
Personnel services	-	60,363	60,363
Contractual services	-	23,699	23,699
Materials and supplies	-	42,813	42,813
Utilities	-	11,619	11,619
Repairs and maintenance	-	25,308	25,308
Depreciation and amortization	-	41,099	41,099
Total operating expenses	-	204,901	204,901
Operating income	-	4,026	4,026
<b>Non-operating revenues (expenses)</b>			
Interest income	-	5,318	5,318
Net income before transfers	-	9,344	9,344
<b>Transfers out</b>	-	(9,000)	(9,000)
Change in net assets	-	344	344
Net assets, beginning of year	-	333,522	333,522
<b>Net assets, end of year</b>	\$ -	\$ 333,866	\$ 333,866

# CITY OF REED CITY

## Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2008

	Compensated Absences Fund	Motor Pool Fund	Total
<b>Cash flows from operating activities</b>			
Receipts from interfund services provided	\$ -	\$ 208,927	\$ 208,927
Payments to suppliers	-	(105,759)	(105,759)
Payments to employees	-	(60,172)	(60,172)
Net cash provided by operating activities	-	42,996	42,996
<b>Cash flows from non-capital financing activities</b>			
Transfers (out)	-	(9,000)	(9,000)
<b>Cash flows used in capital and related financing activities</b>			
Acquisition of capital assets	-	(6,977)	(6,977)
<b>Cash flows from investing activities</b>			
Interest earned on investments	-	5,318	5,318
Net increase in cash and cash equivalents	-	32,337	32,337
Cash and cash equivalents, beginning of year	-	108,813	108,813
<b>Cash and cash equivalents, end of year</b>	\$ -	\$ 141,150	\$ 141,150
<b>Cash flows from operating activities</b>			
Operating income	\$ -	\$ 4,026	\$ 4,026
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	-	41,099	41,099
Changes in operating assets and liabilities which provided (used) cash:			
Prepaid expenses	-	(89)	(89)
Accounts payable	-	(2,231)	(2,231)
Accrued liabilities	-	(47)	(47)
Compensated absences	-	238	238
Net cash provided by operating activities	\$ -	\$ 42,996	\$ 42,996

## **FIDUCIARY FUNDS**

**CITY OF REED CITY**

**Agency Funds  
Combining Balance Sheet**

**June 30, 2008**

	<b>Tax Collection</b>	<b>Payroll</b>	<b>Rails to Trails</b>	<b>Osceola Foundation</b>	<b>Totals</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 851	\$ 16,357	\$ 5,636	\$ 11,107	\$ 33,951
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 14,559	\$ -	\$ 1,233	\$ 15,792
Due to other governmental units	851	1,798	-	-	2,649
Deposits held for others	-	-	5,636	9,874	15,510
<b>Total liabilities</b>	<b>\$ 851</b>	<b>\$ 16,357</b>	<b>\$ 5,636</b>	<b>\$ 11,107</b>	<b>\$ 33,951</b>

## **COMPONENT UNIT**

# CITY OF REED CITY

## Balance Sheet/Statement of Net Assets Downtown Development Authority

June 30, 2008

	General Operating Fund	Debt Service	Capital Projects	Total Governmental Funds	Adjustments	Statement of Net Assets
<b>Assets</b>						
Cash and cash equivalents	\$ 27,576	\$ 136,610	\$ 42,545	\$ 206,731	\$ -	\$ 206,731
Accounts receivable	97,858	-	1,051,011	1,148,869	-	1,148,869
Due from other funds	-	-	25,000	25,000	(25,000)	-
Advance to other component unit	-	-	5,000	5,000	-	5,000
Capital assets not being depreciated	-	-	-	-	735,232	735,232
Capital assets being depreciated, net	-	-	-	-	6,682	6,682
Total assets	\$ 125,434	\$ 136,610	\$ 1,123,556	\$ 1,385,600	716,914	2,102,514
<b>Liabilities and fund balance</b>						
<b>Liabilities</b>						
Accounts payable	\$ -	\$ -	\$ 118,858	\$ 118,858	-	118,858
Due to other funds	25,000	-	-	25,000	(25,000)	-
Deferred revenue	95,430	-	999,422	1,094,852	(1,094,852)	-
Accrued interest	-	-	-	-	31,744	31,744
Long-term debt	-	-	-	-	2,080,645	2,080,645
Total liabilities	120,430	-	1,118,280	1,238,710	992,537	2,231,247
<b>Fund balance</b>						
Undesignated	5,004	136,610	5,276	146,890	(146,890)	
<b>Total liabilities and fund balance</b>	\$ 125,434	\$ 136,610	\$ 1,123,556	\$ 1,385,600		
<b>Net assets</b>						
Unrestricted (deficit)					\$ (845,647)	\$ (128,733)

# CITY OF REED CITY

## Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2008

Fund balances - total governmental funds	\$ 146,890
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - capital assets not being depreciated	735,232
Add - capital assets, net of accumulated depreciation	6,682

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred receivables	1,094,852
----------------------------	-----------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds payable	(2,080,645)
Deduct - accrued interest on long-term liabilities	<u>(31,744)</u>

Net assets of governmental activities	<u><u>\$ (128,733)</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Statement of Revenues, Expenditures and Changes in Fund Balances/Net Assets Downtown Development Authority

For the Year Ended June 30, 2008

	General Operating Fund	Debt Service	Capital Projects	Total Governmental Funds	Adjustments	Statement of Net Assets
<b>Revenues</b>						
Taxes	\$ 621,823	\$ -	\$ -	\$ 621,823	\$ -	\$ 621,823
Interest and other	25,653	9,332	134,262	169,247	315,021	484,268
Capital contribution	-	-	250,000	250,000	-	250,000
Total revenues	647,476	9,332	384,262	1,041,070	315,021	1,356,091
<b>Expenditures/expenses</b>						
General government	75,000	-	720,774	795,774	138,724	934,498
Debt service:						
Principal	-	70,000	-	70,000	(70,000)	-
Interest and fiscal charges	-	60,949	-	60,949	26,892	87,841
Capital outlay	-	-	1,630,638	1,630,638	(1,630,638)	-
Total expenditures/expenses	75,000	130,949	2,351,412	2,557,361	(1,535,022)	1,022,339
Revenues over (under) expenditures	572,476	(121,617)	(1,967,150)	(1,516,291)	1,850,043	333,752
<b>Other financing sources (uses)</b>						
Proceed from loan	-	-	1,090,645	1,090,645	(1,090,645)	-
Transfers in	-	120,765	876,926	997,691	(997,691)	-
Transfers (out)	(997,691)	-	-	(997,691)	997,691	-
Total other financing sources (uses)	(997,691)	120,765	1,967,571	1,090,645	(1,090,645)	-
Net change in fund balances	(425,215)	(852)	421	(425,646)	425,646	
Change in net assets					333,752	333,752
Fund balances/net assets (deficit), beginning of year	430,219	137,462	4,855	572,536	(1,035,021)	(462,485)
<b>Fund balances/net assets (deficit), end of year</b>	<u>\$ 5,004</u>	<u>\$ 136,610</u>	<u>\$ 5,276</u>	<u>\$ 146,890</u>	<u>\$ (275,623)</u>	<u>\$ (128,733)</u>



# CITY OF REED CITY

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2008

Net changes in fund balances - total governmental funds \$ (425,646)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,592,456
Deduct - depreciation expense	(542)
Loss realized on sale of capital assets	(100,000)

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements.

Add - increase in small business loan receivables	315,021
---	---------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds from sale of bonds and land contract	(1,090,645)
Add - principal payments on long-term liabilities	70,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Deduct - increase in accrued interest on bonds	<u>(26,892)</u>
--	-----------------

Change in net assets of governmental activities	<u>\$ 333,752</u>
---	-------------------

The accompanying notes are an integral part of these financial statements.

# CITY OF REED CITY

## Balance Sheet/Statement of Net Assets Brownfield Redevelopment Authority

June 30, 2008

	<b>General Operating Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 8,039	\$ -	\$ 8,039
Due from other governments	9,434	-	9,434
Total assets	<u>\$ 17,473</u>	-	<u>17,473</u>
<b>Liabilities and fund balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 12,090	-	12,090
Advance from other component unit	5,000	-	5,000
Total liabilities	17,090	-	<u>17,090</u>
<b>Fund balance</b>			
Undesignated	<u>383</u>	<u>(383)</u>	
<b>Total liabilities and fund balance</b>	<u><u>\$ 17,473</u></u>		
<b>Net assets</b>			
Unrestricted (deficit)		<u><u>\$ 383</u></u>	<u><u>\$ 383</u></u>

# CITY OF REED CITY

## Statement of Revenues, Expenditures and Changes in Fund Balances/Net Assets Brownfield Redevelopment Authority

**For the Year Ended June 30, 2008**

	<b>General Operating Fund</b>	<b>Adjustments</b>	<b>Statement of Net Assets</b>
<b>Revenues</b>			
Intergovernmental revenue - Federal	\$ 65,761	\$ -	\$ 65,761
Interest and other	218	-	218
Total revenues	65,979	-	65,979
<b>Expenditures/expenses</b>			
General government	65,761	-	65,761
Revenues over (under) expenditures	218	-	218
<b>Other financing sources (uses)</b>			
Proceed from loan	-	-	-
Transfers in	-	-	-
Transfers (out)	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	218	(218)	
Change in net assets		218	218
Fund balances/net assets (deficit), beginning of year	165	-	165
<b>Fund balances/net assets (deficit), end of year</b>	<b>\$ 383</b>	<b>\$ -</b>	<b>\$ 383</b>



**REED CITY, MICHIGAN**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF REED CITY  
SINGLE AUDIT**

**TABLE OF CONTENTS**

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	<b><u>PAGE</u></b>
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7-8



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

December 2, 2008

Honorable Mayor and Members of  
the City Council  
City of Reed City, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of City of Reed City, Michigan, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Reed City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Reed City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Reed City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider finding 2008-1 as described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our considering of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

City of Reed City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Reed City's response and, accordingly, we express no opinion on it.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Reed City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

December 2, 2008

Honorable Mayor and Members of  
the City Council  
City of Reed City, Michigan

**Compliance**

We have audited the compliance of City of Reed City, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. City of Reed City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Reed City's management. Our responsibility is to express an opinion on City of Reed City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Reed City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Reed City's compliance with those requirements.

In our opinion, City of Reed City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.



**Internal Control Over Compliance**

The management of City of Reed City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Reed City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Reed City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of City of Reed City as of and for the year ended June 30, 2008 and have issued our report thereon dated December 2, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise City of Reed City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**CITY OF REED CITY**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2008**

<b>Federal Agency/Pass-through Grantor/Program Title</b>	<b>CFDA #</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Commerce</b>		
Direct funding:		
Grants for Public Works and Economic Development Facilities	11.300	<u>\$ 18,933</u>
<b>U.S. Department of Housing and Urban Development</b>		
Passed through Michigan Strategic Fund:		
Community Development Block Grant	14.228	<u>5,640</u>
<b>U.S. Department of Transportation</b>		
Passed through Michigan Department of Transportation:		
Transportation Enhancement Project	20.205	<u>188,567</u>
<b>U.S. Environmental Protection Agency</b>		
Direct funding:		
Sites Assessment Project	66.818	28,916
Petroleum Assessment	66.818	<u>36,845</u>
		65,761
Passed through Michigan Department of Environmental Quality:		
Drinking Water Revolving Fund Loan	66.468	<u>24,825</u>
<b>Total U.S. Environmental Protection Agency</b>		<u><b>90,586</b></u>
<b>U.S. Department of Homeland Security</b>		
Direct funding:		
2007 Assistance to Firefighters Grant	97.044	<u>216,553</u>
<b>Total Expenditures of Federal Awards</b>		<u><b>\$ 520,279</b></u>

**CITY OF REED CITY  
SINGLE AUDIT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Reed City, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the City's financial statements. Amounts presented on the Schedule of Expenditures of Federal Awards agree with or reconcile to amounts presented in the financial statements.

# CITY OF REED CITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

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### SECTION I – SUMMARY OF AUDITORS' RESULTS

#### *Financial Statements*

Type of auditors' report issued:

*Unqualified*

Internal controls over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes        x   no

Significant deficiency(ies) identified not  
considered to be material weaknesses?

  x   yes      \_\_\_\_\_ none reported

Noncompliance material to financial  
statements noted?

\_\_\_\_\_ yes        x   no

#### *Federal Awards*

Internal Control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes        x   no

Significant deficiency(ies) identified not  
considered to be material weaknesses?

\_\_\_\_\_ yes        x   none reported

Type of auditors' report issued on compliance  
for major programs:

*Unqualified*

Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133,  
Section 510(a)?

\_\_\_\_\_ yes        x   no

#### *Identification of Major Programs*

*CFDA Number(s)*

*Name of Federal Program or Cluster*

20.205  
97.044

Transportation Enhancement Project  
2007 Assistance to Firefighters Grant

Dollar threshold used to distinguish  
between Type A and Type B programs:

  \$ 300,000  

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes        x   no

# CITY OF REED CITY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2008

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### SECTION II – FINANCIAL STATEMENT FINDINGS

#### Finding 2008-1 – Independent Review and Approval of Transactions

<b>Criteria:</b>	Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the City's assets.
<b>Condition:</b>	<p>During our audit, we noted several transactions that did not properly evidence that they had been independently reviewed and approved. We noted –</p> <ul style="list-style-type: none"><li>• Payroll registers are not reviewed and approved by an individual other than the preparer</li><li>• Daily cash receipts reconciliation are reviewed by an individual other than the preparer, but there is no written evidence of this review</li><li>• Timecards are required to be signed by the employees' supervisor; however, we noted two out of four timesheets selected in a random sample did not evidence proper documentation of this approval</li></ul>
<b>Cause:</b>	This condition was primarily caused by the limited size of the City's accounting staff and timing constraints.
<b>Effect:</b>	As a result of this condition, the City is exposed to the risk that its financial statements could be misstated (whether due to error or fraud) and not be prevented or detected on a timely basis.
<b>Recommendation:</b>	We recommend that the City adopt a policy requiring the independent review and approval of all transactions, and that such review and approval be documented in writing.
<b>View of Responsible Officials:</b>	Management agrees with the finding and will implement the policies necessary to strengthen internal controls.

### SECTION III – FEDERAL AWARDS FINDINGS

None

### SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

**Finding 2007-1: Segregation of Incompatible Duties – Cash and Investments** – In the prior year, the audit identified several incompatible duties relating to cash and investments. Management assigned a responsible individual to review and approval all reconciliations for cash and investment accounts, and no further corrective action was required.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**

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December 2, 2008

Honorable Mayor and Members  
of the City Council  
City of Reed City

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Reed City* (the "City") for the year ended June 30, 2008, and have issued our report thereon dated December 2, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on August 4, 2008.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements may be affected by unusual transactions, including nonrecurring transactions. The following significant unusual accounting transaction occurred during the year:

- During 2008, the Downtown Development Authority purchased property on land contract. This property was then sold to a third party on land contract along with an operating loan.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 2, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Entity's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



This information is intended solely for the use of the governing body and management of the *City of Reed City* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The script is cursive and fluid, with the first name "Lehmann" and the last name "Johnson" clearly distinguishable.

## **City of Reed City**

### **Comments and Recommendations**

#### **For the Year Ended June 30, 2008**

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In planning and performing our audit of the financial statements of the City of Reed City as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiency we noted that we consider to be a significant deficiency is described in the Schedule of Findings and Questioned Costs in the City's Single Audit report.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. However, we do not believe that the significant deficiency described above is a material weakness.

#### **Other Matters**

##### ***Inventory of Capital Assets***

During our review of internal control procedures, we noted that an inventory of capital assets is not taken on a periodic basis. We recommend that an inventory of all capital assets owned by the City be performed periodically, with an annual assessment considered best practice. We further recommend that the inventory listing be compared to capital asset records and any discrepancies investigated and resolved.

**City of Reed City**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2008**

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***DDA - Review and Approval of Transactions***

Given the nature of the DDA's organizational structure, achieving proper segregation of duties is inherently difficult. The proposed guidelines for the DDA call for "completed transactions" to be provided to the City Treasurer monthly. We recommend that these guidelines be enhanced to require the City Treasurer to receive and approve completed bank reconciliations and journal entries. In this way, the lack of segregation of duties could be mitigated by an after-the-fact review by an individual independent of the preparation of those documents.

\* \* \* \* \*

City of Reed City  
Schedule of Adjustments Passed (SOAP)  
For the June 30, 2008 Audit

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In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

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Effect of Passed Adjustment - Over(Under)Statement				
Assets	Liabilities	Beginning Fund Balance	Revenue	Expenses/ Expenditures
<b>Governmental Activities</b>				
Unposted interest rec.	\$ 3,008	\$ -	\$ -	\$ (3,008)